

Message Text

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70

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

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FM AMEMBASSY MADRID

TO SECSTATE WASHDC 1509

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E.O. 11652: N/A

TAGS: ECON, SP

SUBJ: NEW ECONOMIC MEASURES TO CONTROL INFLATION

1. SHOWING NEW CONCERN OVER INCREASING RATE OF INFLATION AND OTHER ECONOMIC PROBLEMS, GOS HAS ANNOUNCED SERIES OF MODERATE FISCAL AND INCOMES MEASURES AIMED AT SLOWING PRICE INCREASES WITHOUT FURTHER CURTAILING PRESENT 2-3 PERCENT LEVEL OF GROWTH.

2. COST OF LIVING IN SPAIN OFFICIALLY ROSE 19 PERCENT IN 1974 AND IN FIRST TWO MONTHS OF 1975 CLIMBED ADDITIONAL 2.3 PERCENT (VS. 0.9 PERCENT IN JAN-FEB 1974). INCREASINGLY UNFAVORABLE BALANCE OF PAYMENTS PICTURE IN WHICH RESERVES DECLINED OVER \$300 MILLION IN FIRST TWO MONTHS OF 1975 (VS. DROP OF \$214 MILLION IN JAN-FEB 1974) IS SECOND AREA OF MAJOR CONCERN PROMPTING GOS' ATTEMPT TO CONTROL SITUATION. DECLINING RESERVES ALSO LED TO SPAIN'S DECISION TO DRAW ON IMF OIL FACILITY IN MARCH, BUT NEWLY ANNOUNCED PROGRAM DOES NOTHING THAT WOULD DIRECTLY RESTRICT ACCESS TO SPANISH IMPORT MARKET.

3. NEW MEASURES DO NOT APPEAR SUFFICIENTLY STRONG TO
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REVERSE BY VERY MUCH THE PRESENT UPWARD TREND IN PRICE

LEVEL BUT AT LEAST DO SET GUIDELINE ON WAGE INCREASES WHICH ARE NOT TO BE LIMITED TO COST OF LIVING OVER PREVIOUS 12 MONTHS PLUS A MAXIMUM OF 3 PERCENT. THIS ENSURES WAGE HIKES OF SOME 21-25 PERCENT FOR AGREEMENTS REACHED DURING NEXT 6-9 MONTHS AND CAN HARDLY BE CONSIDERED ANTI-INFLATIONARY. BUT IT AT LEAST RULES OUT INCREASES OF 30 PERCENT OR MORE WHICH MIGHT OTHERWISE HAVE ENSUED.

4. OTHER MEASURES INVOLVE LIMITS ON DIVIDENDS, PROFIT SHARING, RENT INCREASES, AND AGRICULTURAL PRICES, AND FREEZE ON CERTAIN GROSS PROFIT MARGINS. A VARIETY OF NEW FISCAL MEASURES IS DESIGNED TO ENCOURAGE CORPORATE INVESTMENT, CONTROL PROFITS THROUGH EXCESS PROFITS TAX, ACCELERATE TAX PAYMENTS, AND INCREASE TAXES ON DIVIDENDS, INTEREST, ETC. THROUGH TEMPORARY 10 PERCENT SURCHARGE.
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